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C O N F I D E N T I A L SECTION 01 OF 03 BERLIN 002083

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TAGS: [PREL](#) [ECON](#) [EFIN](#) [KNNP](#) [MNUC](#) [ETRD](#) [PGOV](#) [IR](#) [GM](#)

SUBJECT: IRAN/GERMANY - MINISTRIES FOLLOWING CHANCELLOR  
MERKEL'S LEAD

REF: A. BERLIN 2077

[1](#)B. BERLIN 2037

[1](#)C. BERLIN 2007

Classified By: Charge d'Affaires John M. Koenig for  
reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: German Government officials in the MFA, Economics Ministry, and Finance Ministry have taken note of Chancellor Merkel's strong public statements in support of a third UNSCR resolution and renewed efforts to encourage German business to cut or curtail ties with Iran following last week's meetings with President Bush and French President Sarkozy. While officials from these ministries fully intend to follow the Chancellor's lead, they confide that the Chancellery has yet to issue formal marching orders or provide a blueprint for any new initiatives. Economics Ministry officials indicate press reporting on potential next steps is, for the most part, accurate. The German Government will likely target high-tech, machine engineering, and power plant construction industries. While the Chancellery and the MFA agree on the big picture, the MFA continues to resist bold public action in advance of a third UNSCR. END SUMMARY.

[1](#)2. (C) Following the November 9-10 U.S.-Germany Summit in Crawford and the November 12 French-German Ministerial Council meeting, we have engaged German Government contacts in the Economics Ministry, Finance Ministry, and MFA. While all indicate they have heeded the strong tone of Chancellor's public call for a third UNSCR and further cuts to business ties, most admit they are still waiting for guidance from the Chancellery on next steps. (COMMENT: We, too, await replies from Chancellery contacts to similar queries. END COMMENT.) Most also admit they are not aware of any new German Government initiatives - contrary to reporting in the German and international press - to pressure German exporters. Most insist that Chancellor Merkel's strong public statements are consistent with the Government's "informal, low-key" efforts already underway to urge business to lower their exposure and cut business ties. Still, they acknowledge, the assertive tone of Merkel's public remarks has sent a strong signal to Iran and to the German business community that now is not the time for "business as usual" with Iran. (NOTE: Comments by most interlocutors were made largely before the release of IAEA DG ElBaradei's report on the Iranian nuclear program. Ref A describes German reaction to the DG's report. END NOTE.)

MFA ECONOMIC DIVISION: MERKEL'S TONE CONSISTENT WITH EFFORTS  
UNDERWAY

[1](#)3. (C) In a November 15 discussion with EMIN, MFA Director General for Economic Affairs Ruediger von Fritsch reiterated

the German position that no EU country has done as much as Germany to impose sanctions on Iran. Germany pushed this issue during its EU presidency, he said, and played a key role in the development of sanctions implementing measures that went far beyond UNSCRs 1737 and 1747. He noted bilateral trade is down 18 percent (albeit from an all-time high in 2005). In the meantime, Ingo Karsten, MFA's chief of the international economic policy division, added, Germany had cut its HERMES export credit guarantees from about 500 million Euros per year "to the single digits" (i.e., less than 10 million Euros). Germany is committed to keeping Iran from developing nuclear weapons, von Fritsch noted, but it is also very cognizant of the price German industry is paying. He speculated that much of the future effort to curtail business with Iran would focus on technology-related exports, a measure that would disproportionately affect Germany's small-and-medium sized companies ("Mittelstand"), which up to now had faced less government scrutiny than the big firms.

¶4. (C) Nonetheless, von Fritsch contended, the most important aspects of any sanctions must be international unity. It makes no sense for Germany to curtail its ties only to see Chinese companies step into the market. In order to be most effective, sanctions must focus on trade that cannot readily be substituted.

¶5. (C) In a November 15 conversation, MFA International Economic Policy Desk Officer Claudia Schuett told Econoff that Merkel's strong statements were consistent with an ongoing effort long underway to encourage business to cut ties with Iran. While unaware of any specific, new initiatives toward that end, Schuett said, the fact that Merkel made such a strong, public statement was itself noteworthy and represents a slight departure from the "low-key, informal" approach taken thus far (see ref C). The

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public statement, Schuett said, sent a strong signal to German exporters and to the regime in Iran that this is not the time for, in her words, "business as usual."

¶6. (C) As for additional formal and informal measures by EU member states, Schuett said that the German Government still hopes to convince China and Russia to agree to more than a "watered down" UNSCR but, regardless of the outcome, the EU is prepared to go beyond UN sanctions. Regarding a November 15 Financial Times article quoting unnamed German legislators on a German plan to work with France, the UK, Italy, Austria, and Spain to urge European exporters to cut business ties, Schuett said the MFA has not been party - at least not at the working level - to such discussions.

MFA NONPROLIFERATION DIVISION NOTICES CHANGE IN TONE

¶7. (C) A working level contact in the MFA Non-Proliferation section told Poloff November 14 that Merkel's comments in Crawford and on November 12 with Sarkozy were quite clear, and that his section (and the MFA at large) had taken note of this change in tone. When asked if the German Government was unified on its Iran policy, the contact admitted there were differing opinions, and commented that leadership in the Chancellery had done a poor job of giving a "heads up" to the MFA in anticipation of Merkel's more forward-leaning statements.

ECONOMICS MINISTRY WAITING FOR GUIDANCE

¶8. (C) Bernard Schroeder of the Ministry of Economics Division for North Africa, Near and Middle East, said his Ministry is still seeking instructions from the Chancellery on what if any actions Merkel's comments in Crawford imply. He indicated he had seen the November 15 FT article and said he too was trying to ascertain its accuracy. He thought more details may come in Chancellor Merkel's upcoming address to the German Federation of Industries (BDI) in the near future.

¶9. (C) Although Germany's large exporters may find withdrawing from Iran "a little bitter," they can absorb the loss of the Iranian market without too much difficulty, Schroeder said. In contrast, medium-size companies producing small machinery, machine tools, and similar goods are highly specialized in their trade with Iran and would not be able to quickly develop alternative markets. He also indicated that the German government would likely target high-tech fields, as well as machine engineering, tunneling, and power plant construction sections. He ruled out the possibility that Germany would target all trade, citing humanitarian concerns.

¶10. (C) What remains unclear, Schroeder said, is how the German government would tighten trade further. Decisions were taken six months ago not to extend HERMES export credit guarantees in a way that would further increase Germany's overall liabilities. German authorities set a ceiling for issuing no more than 50 million Euros in credit guarantees during Q4 2007, even though they expect roughly 100 million Euros in payments from the Iranians this quarter. So far receiving payments from the Iranians has not been a problem. However, if Iranian companies do not pay on the outstanding liabilities of 5.5 billion Euros, it "will be very difficult for us." Schroeder said he knows of no other legal means by which the German government could further discourage trade because companies will argue such commerce is not prohibited. He was uncertain if further steps would require EU action or could be done solely on the national level.

¶11. (C) Schroeder said Germany still views Iran as a market of the future because Germany needs the energy. Germany is very concerned about China moving into this market to capture the energy there and said the Chinese and Koreans "know how to deal with the Iranians." He said China is bartering machines and building plants with Iran in exchange for gas and oil. Upon delivery, China receives a voucher that it can submit to an Iranian oil producer. This system eliminates the need for a banking presence in Iran and will enable China to avoid the consequences of any more banks being listed in a third round of sanctions, he said. He also noted that an Iran-China bank recently opened in Beijing to process payments from Iran.

FINANCE MINISTRY: MERKEL SETS THE TONE

¶12. (C) Finance Ministry Terrorism Finance/Money Laundering Division Director Michael Findeisen told Econoff November 13 that, on the basis of "new signals" from the Chancellery, it was clear the German Government would support another round

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of EU sanctions, regardless of whether or not there is a third UNSCR. If there is no third UNSCR, Merkel and Sarkozy were agreed on the need to push for autonomous EU sanctions. Even if there is a third resolution, Findeisen said, EU implementing measures will again go beyond the scope of that UNSCR, only this time they would be announced "nearly simultaneously."

¶13. (C) Similarly, Findeisen said, German Government internal chatter reveals a growing consensus that Merkel has decided on a course of action and that ministries will have to follow her lead. Findeisen did indicate the MFA thought only weeks ago that it had succeeded in setting forth a clear, integrated government position on the need for sanctions in the UN framework, but this, Findeisen said, "has changed." He alluded to ongoing "quarrels" (not on the big picture, only on the details) between the Chancellery and the MFA.

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